



Australian Industry Group Response to the Victorian Climate Change Green Paper

September 2009

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Annexure A *Gearing Up: Business Readiness for Climate Change*

1. Introduction

The Australian Industry Group (Ai Group) welcomes the opportunity to provide comment on the Victorian Climate Change Green Paper.

Ai Group is a leading industry organisation representing in excess of 3,000 businesses in Victoria and 10,000 nationally. Ai Group's membership is representative of a broad range of sectors in Australian industry, including manufacturing, engineering, non-residential construction, information technology, telecommunications, call centres, transport, automotive, aviation, marine, printing, paper and packaging, labour hire, health technologies and pharmaceuticals, food, beverages, petroleum, chemicals, energy and gas.

In shaping our submission, Ai Group has consulted widely with member companies. This has included facilitating a formal consultation session on the impact of climate change and related policies on the manufacturing sector which involved representatives of industry and the Departments of Premier and Cabinet and Innovation, Industry and Regional Development.

2. Role of State Government Policy in Complementing National Climate Change Policies

Climate change is a primary focus for public policy given its significant environmental, commercial and regulatory implications. Ai Group supports a national approach to climate change mitigation which is appropriately supported, not undercut, by State programs. Ai Group supports the introduction of an emissions trading scheme as the primary national policy approach to reduce greenhouse gas emissions. Such an approach provides strong incentives for business to identify least cost emissions reduction and limits the scope for bureaucratic and political meddling in investment decisions.

Ai Group supports passage in 2009 of Federal legislation giving effect to the Carbon Pollution Reduction Scheme (CPRS) to provide a greater degree of certainty to business and assist in informing business decisions in key areas of investment, subject to a number of improvements including:

- increased support for trade exposed and emissions intensive industries;
- improved measures for the electricity generation sector to ensure continuity of electricity supply; and
- reduction in the regulatory overburden in the areas of emissions reduction and energy use.

The interaction of national policies, notably the Federal Government's CPRS with State based initiatives is a key factor in determining the future costs, economic impact and likely success of Australia's climate change measures.

Ai Group supports the underlying premise to the Green Paper that Victoria's climate change policy framework should complement the CPRS in areas of market failure (page 1) and welcomes the recognition in the Green Paper (pages 7 & 30) that

“the introduction of the CPRS means that a binding emissions reduction target set by the Victorian Government would distort the operation of the scheme by mandating that a set level of reductions should take place within the State, regardless of the efficient allocation of national emission reductions that should be achieved through the CPRS market. Accordingly the Government does not see any benefit in legislating for a state-based emissions reduction target that is inconsistent with a national target.”

Ai Group further supports the intention articulated in the Green Paper (page 13) that the Government will ensure that each new climate change policy demonstrates:

1. A clear and appropriate role for government
2. A role for the Victorian Government and compatibility with the Commonwealth's climate change strategy
3. Alignment to Victorian policy objectives
4. Policy efficiency
5. Policy effectiveness

However, Ai Group is concerned that the vision for Victoria's climate change policy articulated in the Green Paper addresses only part of the picture and is not interlinked with a broader industry strategy framework.

2.1 Need for an Holistic Victorian Industry Strategy

Policy initiatives to address climate change must not be undertaken at the expense of industry in Australia or at the expense of the environment. It is essential that Australia's national climate change policies, complemented by appropriate state initiatives, position Australian industry to both withstand the adverse consequences of the introduction of the CPRS and to take advantage of the emerging opportunities.

Ai Group welcomes the comment in the Green Paper (page 49) that

“Generally, the main role for government is to create the right conditions in which individuals, firms and the community can make timely, well-informed and efficient decisions about adjusting to climate change. Government action will be particularly important in creating a robust economy by encouraging innovation, reduction in red tape, facilitating the take up of opportunities from climate change, and supporting skills development and tackling skills shortages”.

Complementary programs, where required, should be confined to addressing areas where there is likely to be a natural absence of market incentives, i.e. incentives to drive research and development in low-emissions technologies, or where there is clear evidence of a market failure. Even then, such measures should only be undertaken if it is clear that the benefits will outweigh any potentially distortive effects on the functioning of the formal carbon market.

Climate change measures should:

- Maximise transparency and minimise costs
- Rationalise existing environmental regulations and targets
- Focus on areas where there is a clear risk of market failure
- Help deliver least cost abatement
- Assist the effective functioning of a carbon market
- Avoid artificial, market distorting measures
- Be subject to periodic assessment and review

Ai Group recommends that the Victorian Government policies seek to build on existing manufacturing and industrial strengths by identifying potential to adapt them to a low-carbon economy. The domestic and international competitiveness impacts of the introduction of a price on carbon will be significant and transition for Australian industry to a carbon constrained economy will be very difficult. As recognised in the Green Paper (page 24)

“To date Victoria has enjoyed a competitive advantage in many industries due to the availability of low cost, accessible fuel resources such as brown coal.”

Much of Victoria's manufacturing strength has been in high volume, low value add sectors. Maintaining industry competitiveness in a carbon constrained environment and positioning industry to capture opportunities will require implementation of an holistic policy response

incorporating the range of policy levers at the government's disposal. It is critical that Victoria's climate change strategy be developed as part of a broader, cohesive industry policy.

Given the importance of the manufacturing sector to the Victorian economy and the recognition in the Green Paper (page 57) that the manufacturing sector is one of the sectors most likely to be affected by future carbon constraints, the absence of detailed discussion of the relevant policies/initiatives that should be introduced in response is both disappointing and puzzling. Further, the subsequent discussion in the Green Paper of sectors which may need additional support to assist them to become more energy efficient and resource efficient is limited to the tourism sector.

In 2007-08, manufacturing accounted for over 12% of Victorian jobs, second only to the retail sector which accounted for 12.7% of employment. The Green Paper fails to address the significant and adverse implications for employment in the manufacturing sector of climate change policies. Ai Group urges caution in relation to perceptions that job losses will be compensated for by growth in so called 'green jobs'. It is essential that analysis of potential for growth in green jobs distinguishes between real growth in employment and 're-categorisation' of existing jobs. For example, provision of training on energy and water efficiency to existing plumbers will increase the overall pool of plumbers with 'green' qualifications, but does not in itself increase the number of jobs. The existing rigidities in the labour market also need to be recognised, including inability of some sectors of the workforce to acquire the skills necessary to transfer across to emerging industry sectors.

The forthcoming White Paper must articulate in detail the broad support which will be provided by the Victorian government to businesses, including manufacturing businesses. Ai Group renews our call on the Victorian Government to develop a new Victorian industry strategy¹ to consolidate all existing industry policy activities and strengthen funding under four major streams of support:

- Fostering global engagement
- Enhancing innovation and the adoption of advanced technologies
- Building skills and capabilities; and
- Adopting environmentally sustainable production processes

Reflecting the importance of manufacturing to the Victorian economy, Ai Group believes that the Victorian industry strategy should contain a particular focus on ensuring the ongoing competitiveness of the manufacturing sector.

3. Victoria's Climate Change Policy Priorities

Within the framework of a broader industry strategy, Ai Group is broadly supportive of the climate change priorities identified in the Green Paper (page 12):

- Drive innovation to position Victoria to capitalise on new jobs and skills, new technologies and new markets and accelerate the transition to a low carbon economy
- Support private action to adapt to a changing climate and undertake adaptation actions on behalf of the Victorian community to protect the environment, key public assets and manage major public risks
- Help vulnerable regions, businesses and communities adjust to a carbon price, particularly the Latrobe Valley
- Promote low emissions energy technologies as the key to Victoria's energy future
- Establish future-focussed transport, planning and building systems to support a low emissions future and accommodate a changed climate.

¹ Ai Group 2008 *Building a Productive Victoria: Ai Group Submission on 2008-09 Victorian Government Budget Priorities*

To this list of priorities Ai Group would add:

- Support businesses to identify and implement initiatives to reduce the carbon intensity of supply chains to ensure ongoing competitiveness of industry in a carbon constrained environment
- Regulatory reform to ensure focus on least cost abatement and harmonisation of complementary policies

Ai Group further supports the areas nominated in the Green Paper (page 28) as a focus for Victorian Government action:

- Funding research and development
- Assisting the take-up of emissions abatement opportunities in sectors not covered under the CPRS
- Encouraging innovation
- Supporting the take up of new technologies; and
- Providing modern, efficient energy and transport infrastructure

3.1 Positioning Industry to Compete in a Carbon Constrained Environment

The Green Paper states (page 50) that

“While the assistance from the Commonwealth will support the transition to a low carbon economy, the extent and speed with which industries can respond will be dependent upon the availability of skills, knowledge and capital to adjust – providing a rationale for action by the Victorian Government to assist EITE industries.”

This statement fails to adequately recognise that there are many industries ineligible for EITE assistance which will also require support. Ai Group contends that an important role exists for the Victorian Government in supporting businesses and industries to manage the transition to a low carbon economy, including providing information on energy efficiency, resource efficiency and new technologies and services; providing support for innovation, investment attraction and export development; and developing action plans and strategies for particular industries.

3.1.1 Addressing Constraints on Industry to Respond to Climate Change

Ai Group’s recent report, *Gearing Up: Business Readiness for Climate Change*, identified that while a solid core of Australian businesses is taking steps to measure and manage their carbon footprints and that many more are planning to take these steps over the next few years, a significant minority of businesses is not yet managing and has no current plans to manage their carbon footprint. Business knowledge of the CPRS and its impacts is mixed. Larger businesses and manufacturers are much more likely to have strong knowledge of the CPRS and its impacts. Across the general business community, preparations are much less advanced. Many, particularly larger, businesses are planning to upgrade the skills of existing personnel and to call on external advice to assist in managing footprints over the next three years. Early policy steps are called for to build business awareness and readiness. This would improve resilience during the early period of the CPRS and expose more businesses to opportunities to reduce emissions and energy use. A copy of the Gearing Up report is contained in Annexure A.

On a day-to-day basis, the owners/managers of small business are dealing with a range of competing obligations and priorities. A key priority of Government policy must be to engage those in SME businesses and assist them to recognise the imperatives and business opportunities of adopting carbon efficiency principles into their business, and to implement effective responses.

An essential element of this support should be provision of on-site assistance in the identification and/or assessment of initiatives to achieve improved carbon efficiency by SMEs and facilitate development of in-house expertise.

Ai Group supports implementation of a program of direct investment support for low emissions and energy efficient processes linked to an extensive business advice program. We consider that organisations with close relationships with businesses and with experience in communicating directly with businesses would add considerable value to program delivery. Ai Group is well placed to work closely with government in the development and delivery of such programs in response to the needs of industry broadly.

3.1.2 Transitioning Supply Chains

Processes and their emissions, do not occur in isolation but are part of supply chains. Ai Group supports establishment of an expanded program to support the transition of supply chains to a low carbon future in key industry sectors. By considering environmental impacts across supply chains this approach can ultimately help businesses make more informed and better decisions in product manufacturing, purchasing, distribution and product development.

Looking at the supply chain can help businesses understand their impacts across the life cycle of products and allow prioritisation of areas where significant reductions in impacts can be achieved and potentially large financial benefits gained. In many instances, the greatest opportunity to reduce environmental impacts exists in the design and development stage. Through addressing the environmental impacts at the design stage, companies can develop solutions that are environmentally friendly and cost effective. For example, environmental benefits can be achieved through minimising resources and avoiding the use of products that have adverse impacts including those inputs with high carbon footprints.

Ai Group and Sustainability Victoria have embarked on an innovative project to reduce carbon along two supply chains in the food sector. The Resource Smart Business Industry Pilot project will see Ai Group work closely with two key companies in the food sector and their supply chains to identify and implement carbon reduction opportunities. Ai Group will apply life cycle thinking and tools to understand the flow of resources, followed by on-site assistance to reduce energy consumption and associated carbon emissions, with a particular focus on small and medium sized businesses.

It is intended that the outcomes of the project will provide a model for reducing carbon along the supply chain that can be applied to other industry sectors including automotive and construction.

4. Energy Efficiency

To date, the Government initiatives to improve energy efficiency have focussed primarily on the residential sector. Ai Group supports the intention outlined in the Green Paper (page 36) to improve commercial and industrial energy efficiency as one of five key areas of focus (the remaining areas target the household and community sector). It is essential that actions taken at the state level to improve commercial and industrial energy efficiency are consistent with the National Strategy for Energy Efficiency.

The Green Paper details (page 36) that the tools available to the Victorian Government to increase the uptake of energy efficiency include:

- Information provision
- Financial incentives such as rebates
- Promoting the development of energy efficiency services to make taking action easy for households and create green jobs
- Enabling the proliferation of effective financial models for investment in energy efficiency improvements, such as energy performance contracting

A key omission from this list of tools is the provision of practical assistance to industry.

Barriers to the uptake of energy efficiency initiatives by business extend beyond financial payback and include risk and uncertainty. Ai Group research indicates that many companies are not acting to reduce their carbon footprint and are not investing in change because of uncertainty around how a CPRS would work. Ai Group surveys have further consistently identified that companies have a limited understanding of their greenhouse impact. This is compounded by lack of internal management resources with environmental expertise.

The results of Ai Group's research indicate the need for comprehensive business support services to address the need for:

- improved awareness of the implications of climate change and climate change policy for business
- practical information on processes for identification, assessment and implementation of innovative solutions and encouragement for increased business uptake of initiatives to remove carbon from the supply chain
- development of in-house expertise and increased awareness of the tools for achievement of sustainable environment solutions
- increased industry investment in carbon efficiency initiatives

Ai Group recommends that the Victorian Government addresses these barriers through the implementation of a small grants scheme, designed particularly for SMEs. Interested SMEs could have their business audited to identify solutions to lowering greenhouse gases. This would be achieved through assessments of resource usage, including energy and water. Funding for the implementation of these solutions could then be provided by the Victorian Government on a cost-shared basis. In many cases, the solutions identified by the audit might be no more than simple changes to operational procedures.

5. Transport

In an economic climate marked by capacity constraints, investment in world-class transport links and infrastructure is an avenue through which the State Government can boost the productivity and efficiency of firms and address carbon intensity. It is essential that any measures to reduce emissions through reductions in vehicle traffic are accompanied by commensurate improvements in the public transport network. Victoria has already seen evidence of the impact of an overloaded public transport system.

Regulatory barriers to the uptake of more efficient road transport management practices also need to be addressed. In consultations undertaken between Ai Group members and the Department of Innovation, Industry and Regional Development in the lead up to the release of the Green Paper, member companies noted the potential for improved freight management practices to reduce transport related emissions. A number of regulatory barriers exist which prevent businesses from reducing their transport related emissions, including delivery curfews imposed by Councils on suppliers to supermarket chains and truck loading specifications.

6. The Built Environment

The Green Paper (page 40) outlines a number of ideas for future policies relating to the built environment. Ai Group is broadly supportive of these initiatives, which essentially address future developments. However, we consider that an area requiring increased focus is the existing stock of commercial buildings and housing, including strategies for engaging owners and tenants and provision of information and assistance to enable them to address emissions intensity.

7. Solid Waste Management

Industry in Australia incurs significant administrative and compliance costs as a result of inconsistent waste management policies and regulations. These include:

- Fundamentally different approaches and divergent policy settings, such as waste diversion targets, which create significantly different cost and compliance regimes, adding to costs and administrative complexity for businesses operating across state boundaries;
- Differing categories, definitions, rules and practices which inhibit the generation of accurate and consistent data on waste across (and even within) jurisdictions, impeding the ability of businesses to take up opportunities to more efficiently manage their waste;

The development of a national waste strategy provides an important opportunity to better harmonise waste policies across Australia, including waste targets, waste categorisation and technical details such as the conversion factors applied in calculating waste data.

Within an effective national waste policy framework, significant scope exists for the Victorian Government to implement practical initiatives to reduce waste and encourage improved resource recovery. Businesses require technical advice and support in reducing their waste, from product design, through to identification of recycling and reuse opportunities. Ai Group strongly supports adoption of a cooperative approach to working with Victorian manufacturers to develop cleaner production practices to prevent waste and also to identify opportunities for re-use of waste. The collaborative approach adopted by the EPA in working proactively with businesses to move industry beyond compliance is an outstanding example of how joint government and industry initiatives can effectively generate beneficial outcomes for all stakeholders.

Ai Group's Sustainability Covenant with EPA Victoria is an excellent example of practical initiatives that provide resources and support for companies to investigate and implement resource efficiency strategies in their business to achieve improved environmental performance and reduce their environmental footprint. Many of the industry projects undertaken with Covenant funding have explored cost-effective and resource-efficient options for industrial waste, to reduce quantities of material going to landfill disposal. The success of these resource recovery projects has been recognised by the recent extension of the Covenant for a further 3 years.

Increased emphasis also needs to be placed on approaches to supporting infrastructure and markets for diverted material. The global financial crisis has seen prices for recycled materials drop significantly, making some forms of recycling commercially marginal or unviable, and diminishing the achievability of waste diversion targets under current policy settings. Recycling can be enhanced through provision of better information about what can and can not be recycled, and the high quality and performance of recycled materials, and through reform of remaining regulations and product specifications that require use of virgin materials.

For more marginal products, recycling may never be viable on purely commercial terms. It is critical that any policy initiatives to address these instances are based on a cost benefit analysis and allocate cost burdens fairly and transparently. Banning disposal of materials to landfill will not in itself generate investment in collection and processing facilities in the absence of alternative uses and viable markets for the diverted material.

Ai Group strongly supports the approach taken by the EPA in the recent revision of the *Environment Protection (Industrial Waste Resource) Regulations 2009* to reduce barriers to management of industrial waste. Ai Group supports the replacement of the previous default listing of prescribed industrial wastes with an approach to waste classification that is based on the hazards that are present in the waste and the risks that are posed by them. This provides greater flexibility for industry in addressing hazardous waste issues. Ai Group further supports removal of the requirement for transport certificates where materials being directly reused as a feedstock in another process including at another site, provided they do not require "treatment or reprocessing".

Ai Group considers that landfill must continue as an essential element of an efficient waste management system. Diversion of waste to reuse, recycling or energy recovery should be encouraged and supported wherever it offers greater net community benefits – but this is a question that depends very much on the particular waste product and the particular context of disposal. In many instances it will be landfill that offers the best outcome, minimising social, environmental and economic costs.

8. Creating Opportunities

The Green Paper highlights four key areas of opportunity where it is considered that Victoria is particularly well placed to succeed (page 64):

- Sustainable food and farming systems
- Advanced water management
- Carbon markets
- Cleantech (defined as firms operating across the spectrum of renewable energy, energy efficiency, advanced water technologies, waste management and environmental sciences)

While Ai Group does not disagree with this assessment, of concern is the absence of the focus on manufacturing as an area of opportunity. There must be recognition of the important and extensive interlinkages between manufacturing and the other areas identified as presenting opportunities, such as renewable energy; energy efficiency; skills development; services; ICT; and construction. It is critical that policy settings enable capture of opportunities broadly.

Ai Group welcomes the support which has been provided by the Government to date for our “environmental solutions forums” which aim to bring together providers of environmental solutions with those facing environmental challenges. This is a cost effective means of disseminating information on solutions to environmental problems and promotes business development opportunities.

9. Driving Innovation

Increasing the current levels of innovation in Australia and improving the agility of local companies is one of the most important tasks facing both the State and Federal Governments.

Reducing carbon emissions will require new approaches to industrial and agricultural production, heavy investments in low-emissions sources of energy and changed patterns of consumption. Neither the scale of the change required nor its impacts should be underestimated.

Reducing Australia’s emissions by 60% of 2000 levels by 2050 will necessitate a fundamental change in the direction of Australia’s economic development. After allowing for GDP and population growth, meeting this target will require us reducing the emissions intensity of our economy by around 75%. Ai Group members want to play a constructive role in reducing global emissions. Many Ai Group members have made significant inroads into their direct emissions and their energy use over the past decade or so. Many also are seeing opportunities for their businesses in an economy that needs to change direction so decisively. However, it is clear that the global crisis is detracting from the ability of businesses to undertake expenditure to reduce their emissions.

Ai Group agrees with the statement, (page 53) that

“Innovation for climate change is not only about particular niches where new products and services can make improvements; it is also about becoming more innovative in our systems of transportation, buildings, energy and water, and the ways in which we

produce and consume goods and services. Businesses will also need to become more innovative in their operations and processes”.

The Green Paper identifies the need for a “step-up” in innovation in order to respond to climate change. Future levels of innovation will, in part, be dependent upon the degree to which firms possess the skills required to take advantage of emerging technologies.

9.1 Victorian Industry Agility Initiative

The Enterprise Connect program, funded by the Federal Government, offers to meet up to 50% of the cost of professional services aimed at providing solutions in business planning, process improvement and lean manufacturing, up to \$20,000. Ai Group believes the Victorian Government should offer a similar \$20,000 grant to businesses. The Victorian Government could also offer supplementary support in the:

- Development of strategic business plans;
- Building of innovative capabilities; and
- Development of global supply chain networks and linkages.

Companies looking to the future need the organizational capability to develop new business models or pursue business strategies that throw open the traditional boundaries of an organisation. With rapid and disruptive change to business activity becoming more common, the capability to constantly re-invent can determine a business’ sustainability

New forms of coordination and management techniques need to pre-empt major disruptions that might necessitate changes to existing procedures, engineering capabilities or knowledge bases. Developing a strategic approach to innovation management will ensure any weaknesses or challenges can be addressed. Fostering innovation means managing a company for high levels of efficiency and high levels of creativity at the same time. The need for stability competes with a need for change in a global environment that is highly volatile and unpredictable. Companies are changing assumptions about business models as they organise for speed and adaptability.

Ai Group further recommends that the Victorian Government consider the establishment of a management capability advisory and mentoring scheme. Such a scheme could assist companies; particularly SMEs, develop organisational capability to allow them to be agile and flexible. Management development for firms would provide managers with techniques/strategies to manage new business models. These would be approached via elements of the industry agility framework.

9.2 Victorian Centre for Innovation Excellence

The Victorian Government should develop a centre for innovation excellence, modelled on successful developments in South Australia. The centre could help boost local innovation by offering a range of useful services to industry, including:

- Seminars and workshops;
- Best practice training;
- Regular company visits to learn from best practice;
- Collaboration and networking initiatives;
- Assistance with the development of new products;
- Support for mentoring initiatives;
- Assistance in commercialisation and;
- Sponsorship for overseas missions on innovation.

9.3 Victorian Innovation Skills Audit Scheme

Ai Group believes the Government should establish a scheme that focuses on lifting the skills required to be innovative. The scheme, based on the allocation of small skills grants to firms, could incorporate:

- A review of existing innovative skills of employees and managers in participating companies;
- Identification and development of innovative talent held by particular employees in companies to allow them to realise their full potential; and
- Assistance with long-term workforce development strategies that provide planning tools and links to education and training sectors, school and industry models

9.4 Government Procurement

Opportunity exists for the Victorian Government to use its purchasing processes to encourage innovation. The Government has a role to play in supporting Victorian businesses to overcome barriers to innovation, not only by sharing the risk of being 'first movers' in taking up new technologies, products and services as identified in the Green Paper (page 54), but also through clear communication to the market of future requirements for lower carbon-outcomes that can actively stimulate new innovative initiatives. Further, government procurement of demonstration technologies can assist the commercialisation of technologies.

Ai Group recommends that the Victorian Government implement a coordinated procurement policy across government which incorporates:

- a focus on whole of life economic and carbon costing
- development of contracting procedures including specifications and evaluation criteria which ensure a results-based approach
- close communication with the market to ensure suppliers are aware of future needs
- a focus on best practice skills development for procurement officers and agencies

Ai Group believes that, where possible, the Victorian Government should look to move their purchases away from foreign products and towards locally developed, innovative goods. Such a move would both strengthen local industry and help promote the quality of locally produced goods to overseas customers.

9.5 Regulation

It is in the interest of both the Government and industry for climate change measures to be implemented in a more strategic and efficient manner. A revised regulatory model, one that focuses relentlessly on least cost abatement and which harmonises complementary policies whilst removing policies that are not complementary, should be both easier to administer and more effective in addressing climate change.

Despite a commitment to regulatory reform by Federal, State and Territory Governments, there is yet to be any streamlining of regulation over greenhouse gas emissions. Instead there has been a proliferation of measures. The report of Ai Group's recent national survey "*Gearing up: Business Readiness for Climate Change*" pointed to a surge in regulation in this area in recent times and a strong expectation of more to come. These findings accord with a recent report by the Productivity Commission in which it counted no less than 244 regulatory measures related to greenhouse gas emissions administered by 56 different agencies. This area is emerging as a major failure of policy in Australia.

The current array of policy instruments, incentives and targets is causing confusion and adding costs for business. In particular, the historic pattern of Federal, State and Territory legislators effectively competing against one another to implement environmental regulation is both unhelpful and highly inefficient.

Ai Group therefore has reservations regarding reference in the Green Paper (page 54) to use of 'smarter regulation' as a means of preparing businesses for the CPRS. Any regulatory initiatives undertaken by the Victorian Government need to be consistent with the over-riding policy priority of removing red tape.

Ai Group endorses the views set out by the Productivity Commission, which stated:

"With an effective ETS, much of the current patchwork of climate change policies will become redundant and there will only be a residual role for state, territory and local government initiatives".

Ai Group recommends that the Victorian Government ensure that its actions in relation to climate change mitigation and adaptation are consistent with the red tape reduction approach taken by the Victorian Competition and Efficiency Commission's preliminary report to the Government in its review of environment regulation in Victoria. The draft report identified efficiency improvements that can provide savings of between \$30m and \$50m per annum to businesses while maintaining the Government's environmental objectives.

10. Developing Skills

In his presentation to the 14 September 2009 consultation forum on the Climate Change Green Paper facilitated by Ai Group on the Findings of the 'Victorian Technology Roadmap Project' Professor Goran Roos identified three main barriers to the implementation of environmental initiatives in SMEs: lack of available resources, most significantly human resources; information barriers and internal attitudes and perceptions. The common theme across these three barriers is skills; improved efforts in the area of skills development is the means by which many of the barriers to the introduction of sustainability practices may be, if not totally removed, at least substantially reduced.

The skills challenge is considerable for many reasons, not the least of which is that companies are at differing stages of their 'sustainability journey'. To illustrate this point, it is instructive to look at the results of a research project Ai Group has been undertaking with Federal Government support which is looking at the capacity of the education and training system to respond to the training needs of emerging technologies, many of which are 'green' technologies. In a national survey conducted as part of this project CEOs were asked to rate their readiness, in terms of skills, to take advantage of emerging technologies;

- Only 16.4% of companies reported a high degree of confidence that their organisation possesses the skills to take advantage of emerging technologies.
- 59% believe their employees are somewhat prepared and
- Around one in five (19.8%) said that their employees do not possess the skills required to take advantage of emerging technologies.

Despite a low percentage of respondents being confident they have the skills almost three-quarters of companies (73.7%) considered it important that their employees are skilled in emerging technologies. Over 42.0% are currently training their employees to meet future requirements clearly indicating that companies are ready to act now. Nearly 30% are planning their training efforts.

Notwithstanding these high levels of interest in training companies identify a range of barriers to upskilling employees in this area:

- Uncertainty of future needs (52.0% of respondents)
- Cost of training (43.9%)
- Employee resistance (36.7%)

- Lack of government incentives (31.3%)
- That staff might leave after training (31.0%)
- Unsure of staff skills deficiencies (25.0%)
- Lack of relevant training (23.1%)
- Training not sufficiently flexible (16.0%)
- Poor quality of training available (16.0%).

There is a clear need to develop a solid understanding of the skills required in a green economy and Ai Group supports the national review of Training Packages and State accredited qualifications currently underway as a useful starting point. However, given the refinement and convergence of existing technologies and development of new technologies, it is important to think of such a review as the first step in an ongoing effort.

One of the findings of the Ai Group research in this area is that many of the technologies used in sustainability are inter-related, multi-disciplinary, highly diverse and somewhat difficult to classify. As a result they cross the traditional industry boundaries and sectoral notions which have tended to characterise the vocational education and training and higher education sectors.

Higher technical skills than in the past appear to be required: emerging technology workers will need to be very 'technically savvy' and more precise, as some processes will be more tightly controlled and some materials and processes will be less forgiving. The findings suggest skills are required at the higher Australian Qualifications Framework qualification levels.

The more generic, but none the less critical, skill sets required by emerging technologies include the attitudes and associated skills to enable them to be highly adaptable, innovative and creative, with the capacity to transfer skills to new contexts as things change. The pace of change is likely to be very fast and people need to be adaptable and flexible to assist organisations to capture emerging technology opportunities.

Based on these findings Ai Group strongly recommends that priority be given to supporting the national VET sector green skills initiatives and to the provision of locally tailored industry support to encourage early skilling take-up, including through demonstration pilots. To be fully effective this must be complemented by the upskilling of the VET workforce who will be delivering these new skills.

11. Adaptation

As identified in the Green Paper (page 65) a key role for government in adaptation is to create the right conditions for individuals, firms and communities to make timely, well-informed and efficient decisions as they adapt to climate change. In particular the government can assist by creating a market and regulatory environment that encourages individual adaptability and flexibility in responding to climate change.

11.1 Managing Our Water Resources

The Victorian community is facing challenges from the persistent drought and the implementation of the Government's program of enhanced infrastructure for the delivery of potable water and interconnection of the water grid. Ai Group believes the following water-related initiatives need consideration by the Victorian Government.

11.2 Funding for Water Reduction

Opportunity exists for the Victorian Government to build on the achievements of previous initiatives to help large water users improve the water efficiency of their operations.

For example, Ai Group's waterMAP Assist program assisted large industrial water users (those users of more than 10 megalitres per year) in Victoria to implement initiatives contained in water management action plans and deliver water savings in industry. Services provided under the program included: water saving seminars; development of factsheets and case studies which are published on Ai Group's website; undertaking of investigative and feasibility studies; and provision of capital support to implement water savings initiatives. Many of the companies which participated in the program are now implementing the findings of the studies to generate water savings.

Ai Group has also entered into cooperative arrangements with major water corporations to support the Support 155 program. This includes conducting water solutions forums to assist industry to identify and take-up innovations leading to improved water efficiency.

Evidence from water management action plans (waterMAPs) by industry confirms that many opportunities for large-scale reductions in potable water use are not cost effective at the site. Yet the savings may be very important to water infrastructure investment. Ai Group supports the establishment of a specific fund to provide financial assistance to businesses to cover the difference between an agreed payback period (for example, three years) and the actual project cost. This would accelerate delivery of projects in industry that will cause significant reductions in potable water usage. This arrangement would support projects where the principal beneficiary of the project is not the host site in industry. Lower expenditure on water manufactured through the proposed desalination plant will mean a lower cost to the community.

11.3 Water Price Determination

The Victorian Government must ensure that the Essential Services Commission (ESC) considers the full impacts on industry when determining the price of water.

In addition to the purchase price of input water, the ESC must also consider the related trade waste costs of treatment and discharge, which give a clearer picture of the cost of water to industry. Ai Group requests that the Victorian Government consult with industry prior to the development of water trading arrangements, as well as in regards to long-term water entitlements for large water users. Water pricing must also be equitable. All sections of the community – business, households, farmers – should contribute to the increased costs of water production, generation and facilitation.